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NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-04 FRB-01 XMB-02 OPIC-03

CIEP-01 LAB-01 SIL-01 OMB-01 IO-04 STR-04 CEA-01

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TO SECSTATE WASHDC 7766

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USADB

TREASURY FOR COOPER/BUSHNELL

E.O. 11652: ADS, DECLAS 6/30/75

TAGS: EAID, EFIN

SUBJECT: RESOURCE POSITION ADB

SUMMARY: ADB SCHEDULED TO COMPLETE 1974 SPECIAL FUNDS (SF) OPERATIONS WITH APPROXIMATELY \$83 MILLION OF UNCOMMITTED FUNDS. GIVEN PROJECTED 1975 SPECIAL FUNDS LENDING VOLUME OF \$250 MILLION, ADB CAN JUST MEET 1975 PROGRAM IF ALL EXPECTED SECOND TRANCHE ASIAN DEVELOPMENT FUND (ADF) CONTRIBUTIONS -- \$162 MILLION -- MADE BY DONORS IN 1975. FURTHER, ADB ORDINARY CAPITAL OPERATIONS SCHEDULED TO HIT RESOURCE AVAILABILITY CEILING BY END OF 1977, ASSUMING U.S. SUBSCRIBES TO ORDINARY CAPITAL INCREASE. THEREFORE, BANK MUST GIVE ATTENTION IN VERY NEAR FUTURE TO FIRST REPLENISHMENT OF ADF AND SECOND REPLENISHMENT OF ORDINARY CAPITAL SO THAT REPLENISHMENTS

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IN PLACE BY MID-1976 AND 1977, RESPECTIVELY.

SUCCESS OF BOTH REPLENISHMENTS DEPENDS UPON U.S.

ABILITY TO PARTICIPATE, LIKELIHOOD OF WHICH OTHER DONORS WILL CONSIDER IN LIGHT OF U.S. TRACK RECORD IN CONTRIBUTING TO ADF AND CURRENT ORDINARY CAPITAL INCREASE. HENCE, CRUCIAL THAT SECOND \$50 MILLION U.S. CONTRIBUTION TO ADF AND CONGRESSIONAL PASSAGE AUTHORIZATION FOR U.S. SUBSCRIPTION TO CURRENT ORDINARY CAPITAL INCREASE BE ACCOMPLISHED BY END THIS YEAR OR BANK MAY BE FORCED TO CHART FUTURE WITHOUT EXPECTATION FURTHER U.S. FINANCIAL SUPPORT. END SUMMARY.

I. SPECIAL FUNDS

1. ADB TOTAL SPECIAL FUNDS RESOURCES CURRENTLY \$537 MILLION WITH OUTSTANDING LOAN COMMITMENTS OF \$345 MILLION. BANK SPECIAL FUNDS LENDING IN 1974 PROJECTED AT \$200 MILLION LEAVING UNCOMMITTED RESOURCES OF \$18 MILLION BY YEAR'S END UNLESS OTHER ADF DONORS, NOTABLY THE UNITED STATES AND AUSTRALIA, COMPLETE FIRST TRANCHE COMMITMENTS THIS YEAR.

2. AUSTRALIAN PARLIAMENT RECENTLY APPROVED FIRST TRANCHE ADF CONTRIBUTION OF \$18 MILLION. CONTRIBUTION SHOULD BE DEPOSITED WITH BANK SHORTLY. IN ADDITION, BANK COUNTING ON SECOND \$50 MILLION U.S. ADF CONTRIBUTION BY END OF YEAR. ITALY, NORWAY, AND BELGIUM HAVE YET TO CONTRIBUTE TO FIRST TRANCHE OF ADF AND PROSPECTS OF CONTRIBUTIONS BY END OF YEAR IN EACH CASE HIGHLY PROBLEMATIC. HENCE BEST ESTIMATES CURRENTLY THAT ADDITIONAL \$68 MILLION OF ADF CONTRIBUTIONS (FROM U.S. AND AUSTRALIA) WILL BE MADE BY END OF CALENDAR YEAR 1974 THEREBY INCREASING UNCOMMITTED BANK SPECIAL FUNDS RESOURCES TO \$86 MILLION AS 1975 SPECIAL FUNDS LENDING BEGINS.

3. BANK PROJECTS \$250 MILLION SPECIAL FUNDS LENDING PROGRAM FOR 1975. \$175 MILLION SECOND TRANCHE ADF SCHEDULED TO BECOME EFFECTIVE BY JUNE 30, 1975 THEREBY PROVIDING NECESSARY RESOURCES TO COMPLETE SPECIAL FUNDS LENDING PROGRAM FOR YEAR. HOWEVER, TRIGGER LEVEL LIMITED OFFICIAL USE
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FOR ACTIVATION OF SECOND TRANCHE ADB SET AT \$131 MILLION SO THAT SECOND TRANCHE CAN BE TRIGGERED ONLY WITH FULL U.S. PARTICIPATION OF \$50 MILLION. GIVEN CONGRESSIONAL TIMING ON APPROPRIATIONS MEASURES, OBVIOUS THAT U.S. NOT ABLE TO CONTRIBUTE THIRD \$50 MILLION (I.E., SECOND TRANCHE) BY JUNE 30, 1975. HENCE, AS WITH FIRST TRANCHE, BANK AND DONORS MUST AGREE UPON MODIFIED TRIGGER LEVEL SUCH THAT CONTRIBUTIONS FROM OTHER DONORS TO ADF CAN BE ACTIVATED FOR BANK LENDING PRIOR TO U.S. \$50 MILLION SECOND TRANCHE

CONTRIBUTION, HOPEFULLY AVAILABLE LATE 1975. IN ADDITION, \$175 MILLION SECOND TRANCHE TARGET FIGURE WILL BE REDUCED BY ABSENCE OF FRENCH, SWEDISH AND AUSTRIAN CONTRIBUTIONS THUS YIELDING MAXIMUM FIGURE OF \$162 MILLION. THEREFORE, BANK'S ADF RESOURCES EXPECTED TO BE TOTALLY EXHAUSTED BY END OF 1975.

4. IN LIGHT OF ABOVE, BANK MUST BEGIN IMMEDIATELY TO WORK TOWARD REPLENISHMENT OF ADF. BANK MANAGEMENT SCHEDULED TO PRESENT PAPER THIS SUBJECT TO BOARD OF DIRECTORS IN NEAR FUTURE. MOST LIKELY WILL SUGGEST DONOR COUNTRY MEETING VERY EARLY 1975 TO BEGIN REPLENISHMENT EFFORT. BANK FEELS IT CRUCIAL THAT REPLENISHMENT BE AGREED TO BY JUNE 30, 1975 THEREBY PROVIDING THAT INITIAL CONTRIBUTIONS TO REPLENISHMENT BE MADE BY JUNE 30, 1976. BANK FEELS ANY FURTHER DELAY IN EFFECTING REPLENISHMENT AGREEMENT WILL DELAY CONTRIBUTION SCHEDULE AND, THEREFORE, VASTLY JEOPARDIZE SPECIAL FUNDS LENDING PROGRAM IN 1976 AND BEYOND.

5. OBVIOUS THAT SECOND AND THIRD U.S. \$50 MILLION CONTRIBUTIONS CRUCIAL TO BANK LENDING SPECIAL FUNDS PROGRAM IN 1975. IN ADDITION, VERY LIKELY THAT WILLINGNESS OF OTHER DONORS TO INITIATE REPLENISHMENT -- AS WELL AS MODIFY TRIGGER LEVEL FOR SECOND TRANCHE ACTIVATION -- WILL BE LARGELY CONDITIONED BY WHETHER U.S. DOES IN FACT MAKE SECOND \$50 MILLION CONTRIBUTION TO FIRST TRANCHE OF ADF LATER THIS YEAR. IN ABSENCE OF SUCH CONTRIBUTION, NUMEROUS OTHER DONORS VERY LIKELY INCLINED TO ADOPT WAIT AND SEE ATTITUDE REGARDING U.S. PARTICIPATION TO ADF IN 1975, THEREBY CONSIDERABLY LIMITED OFFICIAL USE
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POSTPONING REPLENISHMENT EFFORT AND HENCE ACQUISITION OF NECESSARY RESOURCES TO CONDUCT 1976 SPECIAL FUNDS LENDING.

6. IN EFFECT, BANK FINDS ITSELF IN SIMILAR POSITION TO THAT WHICH EXISTED PRIOR TO CREATION OF ASIAN DEVELOPMENT FUND, I.E. OTHER DONORS HIGHLY UNWILLING TO COMMIT RESOURCES IN ABSENCE OF SIGNIFICANT U.S. PARTICIPATION IN EXERCISE. RECALL TOO THAT ADF DONORS AGREED TO MODIFY FIRST TRANCHE TRIGGER LEVEL ONLY BECAUSE OF BELIEF THAT U.S. SECOND \$50 MILLION CONTRIBUTION TO FIRST TRANCHE WOULD IN FACT BE FORTHCOMING BY END OF 1974. SHOULD THAT EXPECTATION PROVE INVALID, DIFFICULTIES IN ARRANGING REPLENISHMENT, LET ALONE ACTIVATION OF ADF SECOND TRANCHE, WOULD BE COMPOUNDED SIGNIFICANTLY.

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05 L-02

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USIA-06 AID-05 COME-00 EB-04 FRB-01 XMB-02 OPIC-03

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USADB

TREASURY FOR COOPER/BUSHNELL

II. ORDINARY CAPITAL

7. AS RESULT OF ADB FINANCIAL REVIEW EXERCISE CONDUCTED AT SEPTEMBER 3 BOARD MEETINGN CLEAR THAT ADB WILL REACH LENDING CEILING IN 1977 ON BASIS OF PROJECTED LOAN VOLUME IN 1975, 1976 AND 1977 OF \$450 MILLION, \$500 MILLION AND \$550 MILLION RESPECTIVELY. IN FACT, LATTER FIGURE (\$550 MILLION) MUST BE CURTAILED CONSIDERABLY -- PERHAPS BY \$150 MILLION SINCE, PRIOR TO END OF 1977, BANK'S BORROWING AND, HENCE, LENDING CEILING WILL BE REACHED. ESTIMATE CONSEQUENTLY THAT BANK CUMULATIVE LENDING VOLUME IN 1975, 1976 AND QOUU WILL NOT EXCEED \$1,350 MILLION -- OR AVERAGE OF \$450 MILLION A YEAR FOR NEXT THREE YEARS.

8. ABOVE CALCULATION BASED ON ASSUMPTION THAT BANK WILL (A) HONOR ESTABLISHED POLICY THAT NET BORROWINGS
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IN PRIVATE MARKET WILL NOT EXCEED 75 PERCENT OF CONVERTIBLE PORTION OF CALLABLE CAPITAL, PRACTICE FOLLOWED BY IBRD AND IDB AND ACCEPTED BY ADB AND (B) NOT FURTHER MODIFY LIQUIDITY POLICY WHICH, AS RESULT OF FINANCIAL POLICY REVIEW AND ADOPTION OF RECOMMENDATIONS IN REVIEW PAPER, IS NOW GENERALLY SIMILAR TO IBRD/IDB PRACTICE. IN ANY EVENT, QUESTIONABLE IF BANK CAN BORROW IN PRIVATE MARKETS IN EXCESS OF 75 PERCENT GUIDELINES SINCE PROJECTED BANK FINANCIAL INDICATORS, E.G. INTEREST COVERAGE RATIO, RESERVE OR LOAN LOSS, SHOW RAPIDLY DETERIORATING TREND FROM PRESENT TO 1978 AND BEYOND.

9. SHOULD U.S. NOT CONTRIBUTE TO CURRENT ORDINARY CAPITAL INCREASE, BANK WILL REACH BORROWING LIMIT AND LENDING CEILING IN EARLY 1977 WITH OBVIOUS CONSEQUENCE THAT BANK MUST INITIATE ORDINARY CAPITAL REPLENISHMENT IMMEDIATELY. YET SUCCESS OF SUCH EFFORTS DOUBTFUL AT BEST IN VIEW OF FACT THAT U.S., PRESUMABLY, COULD NOT AND WOULD NOT PARTICIPATE IN REPLENISHMENT EXERCISE THEREBY GREATLY WEAKENING RESOLVE OF NUMEROUS DONORS INCLINED TO WAIT AND FOLLOW U.S. LEAD IN ANY REPLENISHMENT EXERCISE.

10. ASSUMING U.S. DOES PARTICIPATE IN CURRENT ORDINARY CAPITAL INCREASE, BANK STILL COMPELLED TO INITIATE SUBJECT OF REPLENISHMENT PROBABLY AT BOARD OF GOVERNORS MEETING APRIL 1975 AT WHICH TIME GOVERNORS MAY BE REQUESTED TO INSTRUCT DIRECTORS TO PREPARE PAPER ON ISSUE FOR SUBSEQUENT RECOMMENDATION FOR ACTION BY GOVERNORS AT 1976 ANNUAL MEETING. BOARD OF GOVERNORS WOULD CONSIDER SECOND REPLENISHMENT AT 1976 MEETING TO BECOME EFFECTIVE SOME TIME IN 1977 -- PRESUMABLY SECOND HALF OF YEAR.

11. FOR THE ABOVE SCENARIO TO MEET WITH SUCCESS, U.S. PARTICIPATION ABSOLUTELY CRUCIAL. ASSUME THAT FOR U.S. TO PARTICIPATE WE MUST EXPERIENCE SOME SUCCESS IN PARTICIPATING IN CURRENT ORDINARY CAPITAL INCREASE. HOWEVER, IN VIEW OF FACT THAT HOUSE ACTION ON AUTHORIZATION FOR ORDINARY CAPITAL INCREASE NOW POSTPONED LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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UNTIL AFTER ELECTION, APPEARS HIGHLY POSSIBLE THAT HOUSE MAY NOT ACT ON AUTHORIZATION REQUEST THIS CONGRESS. HENCE MAY BE REQUIRED TO BEGIN AGAIN FROM SCRATCH IN 94TH CONGRESS AND, GIVEN TRACK RECORD OF ADB LEGISLATIVE REQUESTS TO DATE, CERTAINLY QUESTIONABLE WHETHER BOTH

AUTHORIZATION AND APPROPRIATION MEASURES CAN BE COMPLETED BY FALL 1975. THEREFORE APPEARS POSSIBILITY THAT EARLIEST CONTRIBUTION TO CURRENT ORDINARY CAPITAL INCREASE WOULD BE FALL OF 1976. IF SO, THEN DOUBTFUL WHETHER U.S. COULD PARTICIPATE FULLY IN 1976 BOARD OF GOVERNORS DECISION ON FURTHER CAPITAL REPLENISHMENT THEREBY WEAKENING PROSPECTS THAT ADB DONORS WILL ACT IN TIME TO KEEP BANK LENDING PROGRAM AFLOAT AFTER 1977.

12. IN LIGHT OF ABOVE, CRUCIAL THAT HOUSE ACT ON AUTHORIZATION REQUEST PRIOR TO ADJOURNMENT OF 93RD CONGRESS. IN ADDITIOJ, SUCH ACTION WILL HAVE MATERIAL BEARING ON UMS. REQUEST, FOR THE FIFTH REPEAT FIFTH TIME, TO POSTPONE CLOSING DATE FOR SUBSCRIPTION TO CURRENT ORDINARY CAPOTAL INCREASE, ASSUMING U.S. INCLINED TO REQUEST SUCH EXTENSION. LATTER EXERCISE MUST BE INITIATED IN NEAR FUTURE SINCE CLOSING DATE EXPIRES DECEMBER 31, 197R.

III. CONCLUSION

13. ACTION IN 93RD CONGRESS ON BOTH SECOND \$50 MILLION ADF REQUEST AS WELL AS AUTHORIZATION FOR U.S. SUBSCRIPTION TO ORDINARY CAPITAL INCREASE, AT MINIMUM, NECESSARY IF BANK TO SUCCESSFULLY INITIATE AND COMPLETE ADF AND ORDINARY CAPITAL REPLENISHMENTS IN TIME TO CONTINUE LENDING PROGRAMS BEYOND 1975 AND 1976, RESPECTIVELY. BANK FUTURE OPERATIONS LARGELY DEPEND ON U.S. FINANCIAL SUPPORT -- AND FIRM INDICATION OF THAT SUPPORT BY END 1974 -- SINCE MANY BANK DONORS EXPECTED TO FOLLOW U.S. LEAD AND SIT IT OUT UNTIL APPARENT U.S. FULL PARTICIPANT IN BOTH REPLENISHMENT EFFORTS. AT THIS POINT, WITH TWO REPLENISHMENT EXERCISES IN WINGS AND CLOSING DATE FOR SUBSCRIPTION TO PRESENT ORDINARY CAPITAL INCREASE DRAWING NEAR, BELIEVE IT IMPERATIVE THAT U.S. CANDIDLY ASSESS, FOR BENEFIT BANK AND ALL LIMITED OFFICIAL USE
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MEMBER COUNTRIES, PROSPECTS CONTINUING U.S. SUPPORT FOR INSTITUTION. IF U.S. UNLIKELY THIS YEAR TO EITHER CONTRIBUTE FURTHER TO ADF OR COMPLETE AUTHORIZATION FOR ORDINARY CAPITAL INCREASE, THEN BANK AND MEMBERS SHOULD BE CLEARLY INFORMED SO THAT BANK'S FUTURE CAN BE CHARTED WITHOUT EXPECTATION OF FURTHER U.S. FINANCIAL SUPPORT.
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Message Attributes

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Draft Date: 21 OCT 1974
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Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
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Film Number: D740299-0098
From: MANILA
Handling Restrictions: n/a
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30 JUN 2005

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Subject: RESOURCE POSITION ADB SUMMARY: ADB SCHEDULED TO COMPLETE 1974 SPECIAL
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Type: TE
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